PHOENIX GROUP

PHOENIX LIFE ASSURANCE LIMITED

Proposed Scheme to Transfer Long-Term Insurance Business

Report by the With Profits Actuary

11 December 2014

1. INTRODUCTION

The purpose of this report is to give my opinion on the effect of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 (the "Scheme") on the with-profits policyholders of Phoenix Life Assurance Limited ("PLAL"). This report applies equally to the unitised with-profits elements of unit-linked policies, but not other aspects of those policies.

Under the Scheme, the entire business of National Provident Life Limited ("NPLL") will transfer to PLAL.

The report is written for the PLAL Board in my capacity as With Profits Actuary for PLAL. It is intended that I will continue to act as With Profits Actuary for PLAL after the Transfer Date of the Scheme including for the new National Provident Life With-Profits Fund (the "NPL WP Fund").

In preparing my report I have considered the Scheme document and the report by the Actuarial Function Holder of PLAL on the impact of the Scheme on the policyholders of PLAL (the "PLAL AFH Report"). Section 3 of that report gives details of the structure and history of PLAL and section 4 provides details of the Scheme and such details are therefore not repeated in this report. Terms defined in that report carry the same meanings in this report unless otherwise specified.

I have also considered the Principles and Practices of Financial Management ("PPFM") of PLAL as they apply to the with-profits business of PLAL before implementation of the Scheme and the new draft PLAL PPFM which will apply following implementation of the Scheme. However, because the PPFM may be changed, albeit within the constraints imposed by the rules of the FCA, they must not be regarded as a permanent commitment to manage the funds in a particular way.

The Financial Reporting Council is responsible for issuing and maintaining Technical Actuarial Standards ("TAS"). The TAS consist of generic TAS, which apply to a wide range of actuarial work, and specific TAS, which apply to specified areas. This report and the work underlying it comply with the Insurance TAS, the Transformations TAS and the following generic TAS: TAS R (Reporting) and TAS D (Data). TAS M (Modelling) does not apply as no models have been used to calculate results for the purpose of this report. This report does however refer to the estimated solvency position as set out in the PLAL AFH Report and that report sets out how those estimates were made.

2. BACKGROUND

I am a Fellow of the Institute of Actuaries. I was appointed as With Profits Actuary for PLAL on 1 January 2005. I am also currently With Profits Actuary for NPLL.

I am an employee of Pearl Group Services Limited ("PGS"), which is a wholly owned subsidiary of Phoenix Group Holdings, the ultimate parent company of PLAL. I hold two low-cost endowment policies with PLAL, but I am not a policyholder of any of the other companies within the Phoenix Group, including NPLL. I currently have options on a number of Phoenix Group Holdings shares.

I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

3. MAIN EFFECTS OF THE SCHEME

After the implementation of the Scheme, the Pearl WP Fund, the SERP Fund and the LL WP Fund will operate in the same way as they currently operate. Changes to the PPFM will be made to reflect the addition of the NPL WP Fund to which the NPLL business will be transferred.

PLAL operates in accordance with the PLACP as described in paragraph 3.5 of the PLAL AFH Report. The Scheme will not affect the capital policy and after the Scheme has become effective, the PLACP is expected to ensure that sufficient resources are retained to cover all the business of PLAL (including the business transferred in from NPLL) and its associated risks.

4. IMPLICATIONS OF THE SCHEME

4.1. Security and Capital Support

As is noted in section 6.1 of the PLAL AFH Report, currently the security of benefits for all policies in PLAL is provided by:

- PLAL meeting its PRA capital requirements;
- PLHL meeting the minimum group capital requirements;
- PLAL meeting the additional capital requirements required by the PLACP;
- the strength of, and protections built into, the PLACP, including the internally specified stress scenarios that are tested and the process by which these scenarios can be changed; and
- the additional capital held under the terms of the Court undertaking.

Under the terms of the PLACP, the Shareholders' Fund currently provides support to the SERP Fund and the LL WP Fund. In addition, the Shareholders' Fund also supplies support by way of loans to NPLL, which is a subsidiary company of PLAL and is owned indirectly by the Shareholders' Fund. NPLL is consolidated into the financial reporting of PLAL, including its ICA and the PLACP.

Immediately after the Scheme is implemented the Shareholders' Fund will provide support to the NPL WP Fund by way of a loan under the terms of the PLACP. The value of the loan will equal the value of support provided to the National Provident Life Fund under the Shareholder Equalisation Fund and the Earmarked Portfolio at the date the Scheme is implemented. In addition, the Shareholders' Fund and NP Fund will hold additional capital to meet the additional capital requirements of the NPL WP Fund. This will replicate the situation that already exists in NPLL.

Because NPLL is a subsidiary of PLAL and already consolidated into PLAL's financial reporting, implementation of the Scheme does not affect the financial position of PLAL as is shown in the analysis in sections 5.3 to 5.5 of the PLAL AFH Report. However, although the PLAL Board has given an undertaking to provide support to NPLL to enable NPLL to meet its capital policy, this obligation is contingent on PLAL meeting the requirement of its capital policy. This means that, in very extreme situations, any excess capital in PLAL is available to PLAL's own policyholders in priority to NPLL's policyholders. After the Scheme is implemented the Shareholders' Fund and NP Fund would be required to provide support to the NPL WP Fund as long as it has surplus available and this might mean that there was less capital available to support PLAL's existing with-profits policyholders. In practice, the circumstances when this might take place are very remote given the level of protection provided by the current regulatory capital regime (including the PRA's powers of intervention) and the level of additional protection from the PLACP.

My conclusion is that, following the implementation of the Scheme, the existing with-profits policies in PLAL will continue to be protected and that there will be no material adverse change to their security as a consequence of the Scheme.

4.2. Policyholder Benefit Expectations

4.2.1 General

The assets and liabilities of the current with-profits funds in PLAL will be unaffected by the Scheme and these funds will be operated in the same manner as they are currently operated. For each existing with-profits fund there will be no changes as a result of the Scheme to the investment strategy, the way asset shares, bonus rates and surrender values are calculated, the way tax is calculated or the terms of management services agreements.

In addition, as a result of the Scheme:

- No new risks will be undertaken within the existing with-profits funds.
- No costs of the Scheme will be met by the existing with-profits funds.
- There will be no changes to the support arrangements for the SERP Fund and the LL WP Fund.

4.2.2 Conclusion in respect of Policyholder Benefit Expectations

Based on the above, I consider that there will be no adverse changes to the benefit expectations of existing with-profits policyholders as a result of the Scheme.

4.3. Governance of With-Profits Funds

The governance of the NPL WP Fund will be included within the governance arrangements of PLAL and, accordingly, the WPC of PLAL will, from the Transfer Date, take responsibility for the transferring with-profits business in addition to the existing with-profits business of PLAL.

As a result of the Scheme, the membership of the WPC of PLAL will not change and there will be no changes to the terms of reference of the PLAL WPC that will affect the governance of the existing with-profits funds. However, a number of provisions relating to the composition and operation of the WPC, which reflect the provisions applicable to NPLL's Supervisory Board under the NPLL Scheme, will be incorporated into the Scheme. The WPC already operates in accordance with these provisions. They include a requirement for the WPC to consist of a majority of independent "Non-Executive Members", requirements relating to quorum and the appointment of new members, and rights to contact the regulators, examine PLAL's books and take professional advice. This will give greater certainty to the existing policyholders of PLAL about the future operation of the WPC, since these rights and requirements can only be changed in accordance with the Scheme. The Terms of Reference for the WPC will also be updated to reflect the addition of the new NPL WP Fund.

Whilst the WPC will have certain additional powers in respect of the NPL WP Fund, there will be no change in the way it operates with regard to the other with-profits funds in PLAL.

I consider that these changes will improve the governance of the existing with-profits funds and hence the with-profits policyholders in these funds will benefit as a result of the Scheme.

4.4. Quality of Administration

The terms upon which services are currently provided by PGS to PLAL will continue to apply in respect of the existing PLAL business following the implementation of the Scheme, so there is no reason to expect the quality of administration to deteriorate as a consequence of the Scheme.

The business transferring to PLAL is, and will continue to be, administered by PGS and so no additional strain will be placed on that company as a consequence of the Scheme.

4.5. Notification to Policyholders

The Scheme will have only a very small effect on the security of the with-profits policyholders of PLAL, because:

- NPLL is a subsidiary of PLAL and is already consolidated into PLAL's financial results. Therefore, the solvency position of PLAL already takes into account the NPLL business.
- The PLAL capital policy already allows for the risks within NPLL and the total capital held within PLAL and NPLL allows for all the risks of both PLAL and NPLL.
- There is a formal PLAL Board commitment to provide further capital to NPLL if required to enable NPLL to meet its capital policy (provided there is capital available in PLAL).
- It is highly unlikely, given the wider regulatory and reputational issues this would create, that PLAL, whilst meetings its own regulatory capital requirements, would not support NPLL to prevent it becoming insolvent.

PLAL policies are not moving under the Scheme and no NPLL policies are transferring into the existing PLAL with-profits funds, which will continue to be operated separately in accordance with the terms of the 2012 PLAL Scheme.

The Scheme will not change PLAL policy terms and conditions, the PLAL capital policy, the operation and financial management of the existing PLAL with-profits funds or the PPFM as it applies to the existing with-profit funds.

PLAL policies will continue to be administered in the same way: there will be no change to the outsourcing arrangements as a result of the Scheme. Governance will not change other than some strengthening of governance protections (for instance, regarding the membership of the PLAL with-profits committee).

With the exception of annuities in payment, all NPLL business will transfer to a new with-profits fund in PLAL, which will be operated separately from other funds in PLAL.

In view of the minimal impact of the Scheme on PLAL policyholders, as described above, and the high cost of mailing PLAL policyholders and putting in place a response handling capability, I consider that it would be disproportionate to mail PLAL policyholders, and that the proposed advertising provides an appropriate mechanism for publicising the Scheme to PLAL policyholders.

Therefore, I am happy that no notifications in respect of the Scheme need be sent to PLAL with-profits policyholders.

4.6. Effective Date

The Transfer date of the Scheme, on which the policies, assets and liabilities of NPLL will transfer to PLAL, is expected to be 6 April 2015. However, the Scheme also provides that it will be effective from 1 January 2015 for accounting and financial reporting purposes. I am satisfied that this aspect of the Scheme will have no implications for PLAL's with-profits policyholders.

5. CONCLUSION

In my opinion, for the reasons set out above, no class of existing PLAL with-profits policyholder will be materially adversely affected by the implementation of the Scheme and, in particular, the Scheme will maintain the security of benefits for existing PLAL with-profits policyholders and ensure that they continue to be treated fairly.

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